

**REPORT OF THE AUDIT OF THE
BRECKINRIDGE COUNTY
CLERK**

**For The Year Ended
December 31, 2014**



**MIKE HARMON
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EXECUTIVE SUMMARY

AUDIT OF THE
BRECKINRIDGE COUNTY CLERK

For The Year Ended
December 31, 2014

The Auditor of Public Accounts has completed the Breckinridge County Clerk's audit for the year ended December 31, 2014. Based upon the audit work performed, the financial statement presents fairly in all material respects, the receipts, disbursements, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$19,604 from the prior year, resulting in excess fees of \$115,098 as of December 31, 2014. Receipts increased by \$348,932 from the prior year and disbursements increased by \$329,328.

Report Comment:

2014-001 The County Clerk's Office Lacks Segregation Of Duties Over Receipts, Disbursements, And Bank Reconciliations

Deposits:

The County Clerk's deposits as of April 8, 2014, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$ 40,745

The County Clerk's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the County Clerk's deposits in accordance with the security agreement.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Maurice Lucas, Breckinridge County Judge/Executive
The Honorable Jill Irwin, Breckinridge County Clerk
Members of the Breckinridge County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the County Clerk of Breckinridge County, Kentucky, for the year ended December 31, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



The Honorable Maurice Lucas, Breckinridge County Judge/Executive
The Honorable Jill Irwin, Breckinridge County Clerk
Members of the Breckinridge County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the County Clerk on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the County Clerk, as of December 31, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 2014, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2015 on our consideration of the Breckinridge County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Breckinridge County Clerk's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

The Honorable Maurice Lucas, Breckinridge County Judge/Executive
The Honorable Jill Irwin, Breckinridge County Clerk
Members of the Breckinridge County Fiscal Court

Other Reporting Required by Government Auditing Standards (Continued)

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2014-001 The County Clerk's Office Lacks Segregation Of Duties Over Receipts, Disbursements, And Bank Reconciliations

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike H", with a long horizontal stroke extending to the right.

Mike Harmon
Auditor of Public Accounts

December 15, 2015

BRECKINRIDGE COUNTY
JILL IRWIN, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2014

Receipts

State Fees For Services	\$	12,034
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Fiscal Court		10,090
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	804,309
Usage Tax		1,386,597
Tangible Personal Property Tax		1,694,505
Notary Fees		5,096

Other-

Fish and Game Licenses		7,702
Marriage Licenses		5,787
Beer and Liquor Licenses		37,150
Deed Transfer Tax		50,666
Delinquent Tax		269,473
		4,261,285

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		18,618
Real Estate Mortgages		22,772
Chattel Mortgages and Financing Statements		55,840
Powers of Attorney		2,777
Affordable Housing Trust		26,778
All Other Recordings		29,855

Charges for Other Services-

Copywork		4,518
Miscellaneous		6,542
		167,700

Interest Earned		359
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Total Receipts		4,451,468
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The accompanying notes are an integral part of this financial statement.

BRECKINRIDGE COUNTY
 JILL IRWIN, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2014
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 582,371

Usage Tax 1,344,999

Tangible Personal Property Tax 620,464

Licenses, Taxes, and Fees-

Fish and Game Licenses 7,478

Delinquent Tax 23,119

Legal Process Tax 22,124

Affordable Housing Trust 26,778

Miscellaneous 100 \$ 2,627,433

Payments to Fiscal Court:

Tangible Personal Property Tax 156,222

Delinquent Tax 22,429

Deed Transfer Tax 48,133

Beer and Liquor Licenses 37,608 264,392

Payments to Other Districts:

Tangible Personal Property Tax 836,292

Delinquent Tax 139,571 975,863

Payments to Sheriff 20,960

Payments to County Attorney 35,905

Tax Bill Preparation 4,193

Operating Disbursements:

Personnel Services-

Deputies' Salaries 207,384

Employee Benefits-

Employer's Share Social Security 19,958

Employer's Share Retirement 54,320

The accompanying notes are an integral part of this financial statement.

BRECKINRIDGE COUNTY
 JILL IRWIN, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2014
 (Continued)

Disbursements

Operating Disbursements: (Continued)

Contracted Services-		
Business Information Systems	\$	9,740
Materials and Supplies-		
Office Supplies		13,727
Other Charges-		
Conventions and Travel		2,341
Postage		6,257
Bad Debt Expense		326
Miscellaneous		3,929
		<u>\$ 317,982</u>
Total Disbursements		<u>\$ 4,246,728</u>
Net Receipts		204,740
Less: Statutory Maximum		<u>82,131</u>
Excess Fees		122,609
Less: Expense Allowance	3,601	
Training Incentive Benefit	<u>3,910</u>	<u>7,511</u>
Excess Fees Due County for 2013		115,098
Payment to Fiscal Court - March 4, 2015		<u>100,000</u>
Balance Due Fiscal Court at Completion of Audit		<u>\$ 15,098</u>

The accompanying notes are an integral part of this financial statement.

BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2014

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting, receipts and disbursements are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2014 services
- Reimbursements for 2014 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2014

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BRECKINRIDGE COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2014
 (Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent for the first six months and 17.67 percent for the last six months.

The county's contribution for FY 2012 was \$58,225, FY 2013 was \$54,245, and FY 2014 was \$54,320.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2014
(Continued)

Note 2. Employee Retirement System

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Breckinridge County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Breckinridge County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On April 8, 2014, the County Clerk's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the County Clerk's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$ 40,745

Note 4. Escrow Account

The Breckinridge County Clerk maintains an Escrow Bank Account in order to deposit long outstanding checks. The beginning balance as of January 1, 2014 was \$111. Funds in the amount of \$46 were deposited and \$0 was expended, resulting in an ending balance of \$157 as December 31, 2014.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Maurice Lucas, Breckinridge County Judge/Executive
The Honorable Jill Irwin, Breckinridge County Clerk
Members of the Breckinridge County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the statement of receipts, disbursements, and excess fees - regulatory basis of the Breckinridge County Clerk for the year ended December 31, 2014, and the related notes to the financial statement and have issued our report thereon dated December 15, 2015. The County Clerk's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Breckinridge County Clerk's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing out opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Breckinridge County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2014-001 to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Breckinridge County Clerk's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Mike Harmon', followed by a horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

December 15, 2015

COMMENT AND RECOMMENDATION

BRECKINRIDGE COUNTY
JILL IRWIN, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2014

INTERNAL CONTROLS - MATERIAL WEAKNESS:

2014-001 The County Clerk's Office Lacks Segregation Of Duties Over Receipts, Disbursements, And Bank Reconciliations

The County Clerk's office lacks adequate segregation of duties. The County Clerk's bookkeeper collects payments from customers, prepares deposits, writes checks, posts transactions to the receipts ledger, posts checks to the disbursements ledger, and prepares monthly and quarterly reports. The County Clerk or another employee did not document oversight of any of these activities.

Lack of oversight increases the risk of misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department for Local Government.

The County Clerk did not implement a separation of duties as part of her internal control system.

The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

The County Clerk should separate the duties involved in receiving cash, preparing deposits, writing checks, posting to ledgers, preparing monthly bank reconciliations, and comparing financial reports to ledgers. If separation of duties is not implemented, compensating controls should be implemented and documented by the individual performing the procedure.

County Clerk's Response: No Response.

